

**CITY OF LONGVIEW**  
**Cowlitz County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. Public Funds Were Misappropriated And Accounting Records Were Falsified Or Destroyed

Our audit of the financial records of the City of Longview revealed that \$665.00 in public funds was misappropriated from the Planning and Building Department during the period April 7, 1994, through April 25, 1994. Accounting records were falsified or destroyed in an attempt to conceal those losses we were able to identify. There were no federal funds involved in this case.

Building permit payments were not always receipted by department cashiers. As a result, funds from unrecorded cash receipt transactions were stolen. These funds were misappropriated as described below.

- a. When customers made cash payments for these unrecorded transactions, the currency was simply stolen. The amount of loss from this method was \$40.00.
- b. When customers made check payments for these unrecorded transactions, their checks were substituted for cash from other payments which had been recorded. These checks were subsequently deposited with the city treasurer and a corresponding amount of currency was stolen. To assist in concealing these losses, one transaction was falsified by recording the amount as \$58.50 when the actual amount collected was \$112.50. In another case, a fictitious building permit was created and recorded in the system in order to balance the amount of the deposit. We also discovered the signature on this building permit appears to have been forged, and in another case, a building permit was falsely recorded as one number when it actually represented another number. The amount of loss from this method was \$625.00.

When these transactions were manipulated, the department's copy of the building permit document was destroyed and the computerized record of the transaction was deleted from the accounting system.

RCW 42.20.070 states:

Every public officer, and every other person receiving money on behalf of or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district who:

- (1) Shall appropriate to his or her own use or the use of any person not

entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

RCW 9A.60.020 states:

(1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 9A.20.021 states in part:

Maximum sentences for crimes committed after July 1, 1984, and after.

(1) Felony. No person convicted of a classified felony shall be punished by confinement or fine exceeding the following . . . .

(c) For a class C felony, by confinement in a state correctional institution for five years, or by a fine in an amount fixed by the court of ten thousand dollars, or by both such confinement and fine . . . .

Because of the internal control weaknesses cited below, it was not possible for anyone to fix responsibility for the irregularities. The following weaknesses allowed this misappropriation to occur and not be detected in a timely manner.

- a. There was inadequate segregation of duties. Practically all of the cash receipting functions of the Planning and Building Department were the sole responsibility of one person. However, there was no periodic management review of the work performed by this individual which would accomplish the same objective as a segregation of duties between two or more employees.
- b. Several department employees performed cashier functions. However all funds collected by these cashiers were commingled. As a result, it was not possible for anyone to fix responsibility for cash receipts within the department to any

specific cashier.

- c. The numerical sequence of building permits issued was not properly accounted for or controlled. For example, during the three deposit periods examined, nine building permits were missing. Seven of these missing permits involved transactions which were manipulated.
- d. Deposits were not made intact daily. Deposits were routinely kept in an unlocked desk drawer for as long as 11 days before being deposited with the city treasurer.
- e. Mode of payment information (ie; check or cash) was not consistently recorded on building permit forms. Employees also did not balance their daily accounting records by mode of payment. In addition, management officials did not periodically review the check and cash composition of deposits with the city treasurer to ensure this information agreed with the actual building permits issued.
- f. Checks were not endorsed "For Deposit Only" immediately upon receipt.
- g. Generic cash receipt books were used in the Planning and Building Department for miscellaneous sales transactions rather than official prenumbered forms with the city's name printed on them. These generic forms provide no control over revenue transactions because anyone can purchase them at a wide variety of retail stores.
- h. The computer system for building permits lacked integrity and contained numerous weaknesses as described below.
  - (1) There were no restrictions limiting the individuals who could generate building permits. Thus, all department employees had the ability to perform this function.
  - (2) There were no security code features restricting access to the computer system.
  - (3) Legitimate permits could be subsequently altered and/or deleted from the computer system without supervisory approval. Altered or deleted building permits were not retained on file for review by management or audit.
  - (4) Computer system reports were not generated to document and reconcile the number of building permits generated each business day.

The Planning and Building Department made 27 deposits during 1993, and 10 deposits from January 1, through April 25, 1994. The \$665.00 theft described above occurred in three deposits made during April 1994. We did not review deposits prior to April 1994, because the computer records of permits issued before this period were not available at the time of the audit. Building permit information from the computer files is necessary to determine if any additional losses occurred in deposits before April 1994.

After this loss was reported to management officials, internal controls were improved by moving all cash collection functions from the Planning and Building Department to the city treasurer's office.

We recommend the City of Longview seek recovery of the misappropriated \$665.00 and

related audit/investigation costs from their insurance bonding company.

Bond coverage for city employees is as follows:

Hartford Fire Insurance Company  
Crime Policy  
Policy No. PEB JI2863  
\$250,000.00 with no deductible provision  
March 1, 1993, until cancelled

We further recommend the Washington State Office of the Attorney General and the Cowlitz County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement in this case must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

We also recommend the city review its accounting controls over cash receipting in the Planning and Building Department, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.